

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2018

CITY OF PINCONNING
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL STATEMENTS
FISCAL YEAR ENDED June 30, 2018

CITY OFFICIALS - As of June 30, 2018

Mayor	Jason Brazeau
Council Member	Jennifer DeLorge
Council Member	Sherrri Boettcher
Council Member	Brian Saha
Council Member	Rebecca Coyer
Council Member	Gerald Gibson
Council Member	Ann LaPorte
Treasurer	Dawn Hoder
Clerk	Yvonne Broderick
Attorney	Brian Elder
Police Chief	Thomas Tober
City Manager	Dawn Hoder

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CERTIFIED PUBLIC ACCOUNTANTS

Partners:
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David G. Gwizdala, C.P.A.

Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

To the City Council
The City of Pinconning
208 Manitou Street
Pinconning, Michigan 48650

We have audited the accompanying financial statements of the governmental activities, the business – type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of City of Pinconning as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Pinconning's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the City Council
The City of Pinconning

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Pinconning, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and employer contributions, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pinconning's basic financial statements. The combining and individual nonmajor fund financial statements, general fund detail, and indebtedness schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

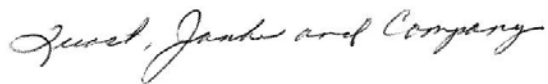
The general fund detail of expenditures, budgetary comparison schedules, DDA reconciliation of statement of revenues, expenditures and changes in fund balance to statement of activities, DDA balance sheet, DDA reconciliation of balance sheet to statement of net position, and the indebtedness schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, general fund detail of expenditures, and indebtedness schedules are fairly stated in all material respects in relation to the basic financial statements as a whole

To the City Council
The City of Pinconning

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the City of Pinconning's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pinconning's internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.
December 31, 2018



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
The City of Pinconning
208 Manitou Street
Pinconning, MI 48650

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Pinconning, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Pinconning's basic financial statements, and have issued our report thereon dated December 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pinconning's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pinconning's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pinconning's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005 and 2018-006 to be material weaknesses.

To the City Council
The City of Pinconning

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2018-007, 2018-008, 2018-009 and 2018-010 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pinconning's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-002, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009 and 2018-010.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.
December 31, 2018

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

This section of the City of Pinconning's annual Financial Report presents Management's Discussion and Analysis (MD&A) of the City's financial activities during the fiscal year ended June 30, 2018. The analysis focuses on the City's financial performance as a whole. Please read it in conjunction with the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City of Pinconning exceeded liabilities and deferred inflows at June 30, 2018, by \$ 2,734,103.87. Of this amount \$ 576,783.05 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$ 685,880.21 during the year. Of this amount the net position of our governmental activities decreased by \$ 113,230.67 and the net position of our business-type activities increased by \$ 799,110.88

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

- *Management's Discussion and Analysis (MD&A)* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Government-wide Financial Statements* consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- *Fund Financial Statements* tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statement report the City's operations in more detail than the Government-wide Statements by providing information about the most significant funds.
- *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- *Required Supplementary Information*, other than MD&A, provides information about the required budgetary comparison information and pension funding progress.
- *Other Supplementary Information* provides detailed information about the General Fund and Debt Schedules.

REPORTING THE CITY AS A WHOLE

The *Statement of Net Position*, the *Statement of Activities* and the *Government-wide Statements* report information about the City as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Position* includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The *Statement of Net Position* and the *Statement of Activities* report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net position, which is the difference between assets and liabilities, as one way to measure

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sewer operations. This activity is financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The *Fund Financial Statements* provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has three kinds of funds:

Governmental Funds

The *Governmental Funds* account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental Funds include the General Fund; Special Revenue Funds such as Major Street, Local Street and a discretely presented component unit, the Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

The Government Fund Statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary Funds

Proprietary Funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund and the Business-Type Activities included in the Government-wide Statement is the detail and additional information, such as cash flows, provided in the Proprietary

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Fund Statements. The Enterprise Fund includes the Water and Sewer Funds, and are considered to be major funds of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support City programs. The reporting focus is on net position and changes in net position, and is reported using accounting principles similar to Proprietary Funds. The City's Fiduciary Funds are presented in the Fiduciary Fund financial statements by type, Tax Collection Fund. Because by definition these assets are being held for the benefit of a third party, pension participants and other local governments, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-Wide Statements.

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as useful indicator of financial position. The following analysis shows the City's total changes in net position at June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Total	
Assets	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,059,209	\$ 1,229,035	\$ 548,253	\$ 206,156	\$ 1,607,462	\$ 1,435,191
Capital assets net of accumulated depreciation	<u>667,167</u>	<u>643,116</u>	<u>3,950,322</u>	<u>3,423,742</u>	<u>4,617,489</u>	<u>4,066,858</u>
Total Assets	1,726,376	1,872,151	4,498,574	3,629,897	6,224,951	5,502,049
Deferred outflows of resources	18,353	110,313	2,039	12,257	20,392	122,570
LIABILITIES						
Current liabilities	93,734	45,467	259,665	38,253	353,399	83,720
Long-term liabilities	<u>814,356</u>	<u>987,127</u>	<u>2,343,484</u>	<u>2,505,548</u>	<u>3,157,840</u>	<u>3,492,675</u>
Total Liabilities	908,090	1,032,594	2,603,149	2,543,801	3,511,239	3,576,395
NET POSITION						
Invested in capital assets net of related debt	667,167	643,116	958,257	982,920	1,625,424	1,626,036
Restricted	325,075	350,801	206,822	230,758	531,897	581,560
Unrestricted	<u>(155,603)</u>	<u>(44,047)</u>	<u>732,385</u>	<u>(115,325)</u>	<u>576,783</u>	<u>(159,372)</u>
Total Net Position	\$ <u>836,640</u>	\$ <u>949,870</u>	\$ <u>1,897,464</u>	\$ <u>1,098,353</u>	\$ <u>2,734,104</u>	\$ <u>2,048,224</u>

The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$ 576,783.

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The following analysis provides the changes in the net position for the City's Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Charges for services	\$ 34,402	\$ 73,250	\$ 728,685	\$ 706,838	\$ 763,087	\$ 780,088
Operating grants and contributions	331,225	201,076	0	0	331,225	201,076
Capital grants and contributions	0	221,760	1,059,278	0	1,059,278	0
GENERAL REVENUES						
Property taxes	459,774	440,146	0	0	459,774	440,146
State shared revenue	137,218	133,425	0	0	137,218	133,425
Unrestricted investment earnings	1,873	3,403	1,891	3,051	3,764	6,454
Transfers	(222,637)	0	222,637	0	0	0
Total Revenues	<u>741,855</u>	<u>1,073,060</u>	<u>2,012,491</u>	<u>709,889</u>	<u>2,754,346</u>	<u>1,561,189</u>
PROGRAM EXPENSES						
Legislative	13,564	14,357	0	0	13,564	14,357
General government	241,868	304,121	0	0	241,868	304,121
Public safety	151,255	237,358	0	0	151,255	237,358
Health and welfare	0	1,438	0	0	0	1,438
Public works and streets	428,641	343,810	0	0	428,641	343,810
Recreation and cultural	19,758	19,512	0	0	19,758	19,512
Unallocated	0	0	0	0	0	0
Water and sewer	0	0	1,213,380	791,256	1,213,380	791,256
Total Expenses	<u>855,086</u>	<u>920,596</u>	<u>1,213,380</u>	<u>791,256</u>	<u>2,068,466</u>	<u>1,711,852</u>
INCREASE (DECREASE)						
IN NET POSITION	<u>\$ (113,231)</u>	<u>\$ 152,463</u>	<u>\$ 799,111</u>	<u>\$ (81,367)</u>	<u>\$ 685,880</u>	<u>\$ (150,664)</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Pinconning completed its year, its Governmental Funds reported total fund balances of \$ 965,475.60 which is less than the \$ 1,128,368.17 total fund balance at June 30, 2017.

- The General Fund, the operating fund for the City, ended fiscal year 2018 with a \$ 640,400.46 balance compared to the prior year ending fund balance of \$ 777,566.78.
- Major Street Fund Balance decreased by \$ 53,573.03.
- Local Street Fund Balance increased by \$ 27,846.78.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

As the City of Pinconning completed its year, its Business-Type Funds reported total net position of \$ 1,897,464.30 which is more than the \$ 1,098,353.42 total net position at June 30, 2017.

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2018, the City amended the budget one (1) time. The amendment was done to cover unbudgeted expenditures and to cover street renovations started during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for Governmental Activities totaled \$ 667,166.97 (net of accumulated depreciation) at June 30, 2018. Capital assets for Business-type Activities totaled \$ 958,256.62 (net of accumulated depreciation) at June 30, 2018. See the Note 4 of the Financial Statements for more information about the City's capital assets.

LONG-TERM DEBT

At year end the City had \$ 2,330,000 in outstanding revenue bonds. All debt is in the business-type activities and is detailed below:

Sewer Fund

Revenue Bond issued to improve, enlarge and extend the City's water and sewer system.

Original issue 1996 – Series A	\$ 2,511,000
Balance June 30, 2017	1,885,000
Balance June 30, 2018	1,820,000
Original issue 2002 – Series A	544,000
Balance June 30, 2017	486,000
Balance June 30, 2018	480,000
Original issue 2002 – Series B	47,000
Balance June 30, 2017	31,000
Balance June 30, 2018	30,000

CITY OF PINCONNING
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

ECONOMIC FACTORS

Our elected officials consider many factors when setting the City's 2018 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. The City's Council has tried to spend conservatively. Costs for health care, insurance and utilities continue to rise. The City maintains its facilities but struggles to provide services to its citizens at the same level as past years. Growth in the City has been slow but the City hopes for new business and industry. Expanding our tax base past single-family homes and increasing water and sewer users is a prime objective.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact Administration at the City of Pinconning, 208 Manitou, P.O. Box 628, Pinconning, MI 48650.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business -Type Activities	Total	
ASSETS:				
Cash	\$ 929,455.68	\$ 257,399.54	\$ 1,186,855.22	\$ 136,604.11
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	80,085.49	286,681.35	366,766.84	0.00
Internal balances	0.00	0.00	0.00	0.00
Inventory	0.00	4,171.69	4,171.69	0.00
Receivable from state	49,668.30	0.00	49,668.30	0.00
Due from primary government	0.00	0.00	0.00	0.00
Capital assets:				
Land	25,000.00	50,000.00	75,000.00	5,000.00
Buildings and improvements	955,204.00	3,452,333.64	4,407,537.64	140,015.91
Construction in progress	0.00	662,065.28	662,065.28	0.00
Infrastructure	637,852.91	0.00	637,852.91	0.00
Equipment	745,352.91	213,779.45	959,132.36	3,100.00
Water and sewer systems	0.00	2,897,948.90	2,897,948.90	0.00
Accumulated depreciation	<u>(1,696,242.85)</u>	<u>(3,325,805.37)</u>	<u>(5,022,048.22)</u>	<u>(63,974.74)</u>
Total Assets	1,726,376.44	4,498,574.48	6,224,950.92	220,745.28
DEFERRED OUTFLOWS OF RESOURCES	18,353.00	2,039.00	20,392.00	0.00
LIABILITIES:				
Accounts payable	28,775.83	167,037.36	195,813.19	11,241.27
Accrued expenses	9,758.04	15,627.82	25,385.86	0.00
Due to other funds	0.00	0.00	0.00	0.00
Due to component unit	0.00	0.00	0.00	0.00
Customer deposits	55,200.00	0.00	55,200.00	0.00
Net pension liability	814,356.00	90,484.00	904,840.00	0.00
Notes and bonds payable				
Amount due within one year	0.00	77,000.00	77,000.00	0.00
Amount due more than one year	<u>0.00</u>	<u>2,253,000.00</u>	<u>2,253,000.00</u>	<u>0.00</u>
Total Liabilities	908,089.87	2,603,149.18	3,511,239.05	11,241.27
NET POSITION:				
Investment in capital assets net of related debt	667,166.97	958,256.62	1,625,423.59	84,141.17
Restricted major and local streets	325,075.14	0.00	325,075.14	0.00
Restricted for debt service	0.00	206,822.09	206,822.09	0.00
Unrestricted	<u>(155,602.54)</u>	<u>732,385.59</u>	<u>576,783.05</u>	<u>125,362.84</u>
Total Net Position	<u>\$ 836,639.57</u>	<u>\$ 1,897,464.30</u>	<u>\$ 2,734,103.87</u>	<u>\$ 209,504.01</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
Legislative	\$ 13,563.97	\$ 0.00	\$ 0.00	\$ 0.00	\$ (13,563.97)	\$ 0.00	\$ (13,563.97)	\$ 0.00
General government	241,867.83	0.00	180,055.65	0.00	(61,812.18)	0.00	(61,812.18)	0.00
Public safety	151,254.94	34,402.13	0.00	0.00	(116,852.81)	0.00	(116,852.81)	0.00
Health and Welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Streets and highways	214,897.77	0.00	151,169.25	0.00	(63,728.52)	0.00	(63,728.52)	0.00
Public works	213,743.27	0.00	0.00	0.00	(213,743.27)	0.00	(213,743.27)	0.00
Recreation and cultural	19,758.31	0.00	0.00	0.00	(19,758.31)	0.00	(19,758.31)	0.00
Total governmental activities	855,086.09	34,402.13	331,224.90	0.00	(489,459.06)	0.00	(489,459.06)	0.00
BUSINESS-TYPE ACTIVITIES								
Water	227,934.43	207,081.00	0.00	0.00	0.00	(20,853.43)	(20,853.43)	0.00
Sewer	985,445.58	521,603.83	0.00	1,059,278.09	0.00	595,436.34	595,436.34	0.00
Total Business-Type Activities	1,213,380.01	728,684.83	0.00	1,059,278.09	0.00	574,582.91	574,582.91	0.00
Total Primary Government	\$ 2,068,466.10	\$ 763,086.96	\$ 331,224.90	\$ 1,059,278.09	(489,459.06)	574,582.91	85,123.85	0.00
COMPONENT UNIT:								
Downtown Development Authority	58,272.79	0.00	19,320.00	0.00				(38,952.79)
GENERAL PURPOSE REVENUES:								
Property taxes - operating					371,942.66	0.00	371,942.66	45,304.96
Property taxes - refuse					87,210.00	0.00	87,210.00	0.00
State shared revenues					137,218.00	0.00	137,218.00	0.00
Unrestricted investment earnings					1,873.20	1,891.00	3,764.20	189.62
Mobile home taxes					621.50	0.00	621.50	0.00
Transfers					(222,636.97)	222,636.97	0.00	0.00
Total General Purpose Revenues and Transfers					376,228.39	224,527.97	600,756.36	45,494.58
Change in Net Position					(113,230.67)	799,110.88	685,880.21	6,541.79
Net Position - Beginning of Year					949,870.24	1,098,353.42	2,048,223.66	202,962.22
Net Position - End of Year					\$ 836,639.57	\$ 1,897,464.30	\$ 2,734,103.87	\$ 209,504.01

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2018

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
ASSETS:				
Cash	\$ 628,754.04	\$ 236,840.12	\$ 63,861.52	\$ 929,455.68
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	55,200.00	0.00	0.00	55,200.00
Current taxes receivable	0.00	0.00	0.00	0.00
Due from other funds	24,885.49	0.00	0.00	24,885.49
Due from state	23,808.00	19,315.85	6,544.45	49,668.30
Total Assets	\$ 732,647.53	\$ 256,155.97	\$ 70,405.97	\$ 1,059,209.47
 LIABILITIES:				
Accounts payable	\$ 27,289.03	\$ 0.00	\$ 1,486.80	\$ 28,775.83
Unearned revenue	55,200.00	0.00	0.00	55,200.00
Accrued expenses	9,758.04	0.00	0.00	9,758.04
Due to component unit	0.00	0.00	0.00	0.00
Due to other funds	0.00	0.00	0.00	0.00
Total Liabilities	92,247.07	0.00	1,486.80	93,733.87
 FUND BALANCES:				
Nonspendable	0.00	0.00	0.00	0.00
Restricted for capital projects	0.00	0.00	0.00	0.00
Restricted for streets	0.00	256,155.97	68,919.17	325,075.14
Assigned	0.00	0.00	0.00	0.00
Unassigned	640,400.46	0.00	0.00	640,400.46
Total Fund Balances	640,400.46	256,155.97	68,919.17	965,475.60
TOTAL LIABILITIES AND FUND BALANCES	\$ 732,647.53	\$ 256,155.97	\$ 70,405.97	\$ 1,059,209.47

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
June 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	965,475.60
Amounts reported for Governmental Activities in the Statement of Net Position are different because -		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:		
Capital assets at cost		2,363,409.82
Accumulated depreciation		(1,696,242.85)
Deferred outflow of resources		18,353.00
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds		
Net pension liability		(814,356.00)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u><u>836,639.57</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
June 30, 2018

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
REVENUES:				
Taxes	\$ 473,261.78	\$ 0.00	\$ 0.00	\$ 473,261.78
State and federal grants	137,218.00	112,903.75	38,265.50	288,387.25
Intergovernmental other	180,055.65	0.00	0.00	180,055.65
License and permits	621.50	0.00	0.00	621.50
Charges for services	20,293.01	0.00	0.00	20,293.01
Interest and rentals	1,873.20	0.00	0.00	1,873.20
Other revenue	0.00	0.00	0.00	0.00
Total Revenues	813,323.14	112,903.75	38,265.50	964,492.39
EXPENDITURES:				
Legislative	12,328.32	0.00	0.00	12,328.32
General government	200,372.47	0.00	0.00	200,372.47
Public safety	128,630.73	0.00	0.00	128,630.73
Health and welfare	0.00	0.00	0.00	0.00
Public works	194,271.67	166,476.78	10,418.72	371,167.17
Cultural and recreation	15,752.76	0.00	0.00	15,752.76
Capital outlay	77,892.83	0.00	0.00	77,892.83
Unallocated	98,603.71	0.00	0.00	98,603.71
Total Expenditures	727,852.49	166,476.78	10,418.72	904,747.99
EXCESS OF REVENUES OVER EXPENDITURES	85,470.65	(53,573.03)	27,846.78	59,744.40
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	(222,636.97)	0.00	0.00	(222,636.97)
Total Other Financing Sources (Uses)	(222,636.97)	0.00	0.00	(222,636.97)
NET CHANGE IN FUND BALANCES	(137,166.32)	(53,573.03)	27,846.78	(162,892.57)
FUND BALANCE - July 1, 2017	777,566.78	309,729.00	41,072.39	1,128,368.17
FUND BALANCE - June 30, 2018	\$ 640,400.46	\$ 256,155.97	\$ 68,919.17	\$ 965,475.60

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (162,892.57)
Amounts reported for Governmental Activities in the Statement of Activities are different because -	
Governmental Funds report capital outlays as expenditures while in the statement of activities, these costs are allocated over their estimated lives as depreciation expense.	
Depreciation expense	(53,841.93)
Capital asset purchases capitalized	77,892.83
Pension expense	25,611.00
Repayment of debt principal is an expenditure in the Governmental Funds, the repayment does not have an effect in the Statement of Activities but does reduce the debt balance in the Statement of Net Position.	
Principal payments on long-term debt	0.00
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ (113,230.67)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
WATER AND SEWER FUNDS
June 30, 2018

ASSETS:	Major Enterprise Funds		Business-Type
	Water Fund	Sewer Fund	Activities Total
Current Assets:			
Common cash account	31,047.82	0.00	31,047.82
Cash and cash equivalents	0.00	19,529.63	19,529.63
Accounts receivable	53,497.07	112,603.59	166,100.66
Grants receivable	0.00	120,580.69	120,580.69
Inventory	0.00	4,171.69	4,171.69
Prepays	0.00	0.00	0.00
Total Current Assets	84,544.89	256,885.60	341,430.49
Noncurrent Assets:			
USDA RD 1996 Bond reserve	0.00	156,834.61	156,834.61
USDA RD 1996 RRI	0.00	159.98	159.98
USDA RD 2002 bond reserve	0.00	36,591.62	36,591.62
USDA RD 2002 RRI	0.00	13,235.88	13,235.88
Capital Assets:			
Construction in progress	0.00	662,065.28	662,065.28
Buildings and Improvements	0.00	3,502,333.64	3,502,333.64
Equipment	11,138.05	202,641.40	213,779.45
Water and sewer systems	1,143,647.65	1,754,301.25	2,897,948.90
Accumulated depreciation	(721,042.06)	(2,604,763.31)	(3,325,805.37)
Total Capital Assets	433,743.64	2,854,512.98	3,950,321.90
Total Noncurrent Assets	433,743.64	3,723,400.35	4,157,143.99
Total Assets	518,288.53	3,980,285.95	4,498,574.48
DEFERRED OUTFLOW OF RESOURCES	510.00	1,529.00	2,039.00
LIABILITIES:			
Current Liabilities:			
Accounts payable	\$ 1,260.01	\$ 165,777.35	\$ 167,037.36
Due to General Fund	0.00	0.00	0.00
Accrued expenses	2,762.30	12,865.52	15,627.82
Revenue bonds payable	0.00	77,000.00	77,000.00
Total Current Liabilities	4,022.31	255,642.87	259,665.18
Noncurrent Liabilities:			
Net pension liability	22,621.00	67,863.00	90,484.00
Revenue bonds payable	0.00	2,253,000.00	2,253,000.00
Total Noncurrent Liabilities	22,621.00	2,320,863.00	2,343,484.00
Total Liabilities	26,643.31	2,576,505.87	2,603,149.18
NET POSITION:			
Invested in capital assets net of related debt	433,743.64	524,512.98	958,256.62
Restricted for debt retirement	0.00	206,822.09	206,822.09
Unrestricted	58,411.58	673,974.01	732,385.59
Total Net Position	\$ 492,155.22	\$ 1,405,309.08	\$ 1,897,464.30

Reconciliation of Government-Wide Statement of Net Position:

Net Position of Business-Type Activities	\$ <u>1,897,464.30</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUNDS
Year Ended June 30, 2018

OPERATING REVENUES:	Major Enterprise Funds		Business-Type
	Water Fund	Sewer Fund	Activities Total
Charges for Services -			
Water charges	\$ 202,050.69	\$ 0.00	\$ 202,050.69
Sewer charges	0.00	441,431.52	441,431.52
Septage income	0.00	0.00	0.00
Local Grants	0.00	72,727.65	72,727.65
Late payment fees	4,946.67	5,758.48	10,705.15
Miscellaneous	83.64	1,686.18	1,769.82
Total Operating Revenues	207,081.00	521,603.83	728,684.83
OPERATING EXPENSES:			
Salaries	39,142.00	91,924.73	131,066.73
Fringes and taxes	14,073.00	35,840.40	49,913.40
Water - cost of goods sold	120,880.43	6,562.11	127,442.54
Contractual services	150.00	2,458.13	2,608.13
Supplies	1,301.32	24,607.73	25,909.05
Repairs and maintenance	15,622.32	447,150.83	462,773.15
Utilities	284.40	69,365.30	69,649.70
Regional water costs	2,598.50	0.00	2,598.50
Insurance	0.00	0.00	0.00
Other	3,058.46	93,493.35	96,551.81
Depreciation	30,824.00	104,661.00	135,485.00
Total Operating Expenses	227,934.43	876,063.58	1,103,998.01
Operating Income	(20,853.43)	(354,459.75)	(375,313.18)
NONOPERATING REVENUES(EXPENSES)			
Interest income	0.00	1,891.00	1,891.00
Federal grants	0.00	500,000.00	500,000.00
State grants	0.00	559,278.09	559,278.09
Loss on sale of capital asset	0.00	0.00	0.00
Interest expense	0.00	(109,382.00)	(109,382.00)
Total Nonoperating Revenues (Expenses)	0.00	951,787.09	951,787.09
Income before contributions and transfers	(20,853.43)	597,327.34	576,473.91
Transfers in	0.00	222,636.97	222,636.97
Transfers out	0.00	0.00	0.00
Total transfers in (out)	0.00	222,636.97	222,636.97
Change in Net Position	(20,853.43)	819,964.31	799,110.88
Net Position Beginning of Year	513,008.65	585,344.77	1,098,353.42
Net Position End of Year	\$ 492,155.22	\$ 1,405,309.08	\$ 1,897,464.30

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
WATER AND SEWER FUNDS
Year Ended June 30, 2018

	Major Enterprise Funds		Business-Type Activities Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 204,648.29	\$ 505,359.66	\$ 710,007.95
Other operating cash receipts	0.00	0.00	0.00
Cash payments to suppliers for goods and services	(145,155.44)	(598,440.8)	(743,596.23)
Cash payments to employees for services	(55,977.30)	(114,899.6)	(170,876.91)
Net cash provided (used) by operating activities	3,515.55	(207,980.74)	(204,465.19)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	0.00	222,636.97	222,636.97
Transfers to other funds	0.00	0.00	0.00
Net cash provided (used) by noncapital financing activities	0.00	222,636.97	222,636.97
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	0.00	(541,484.59)	(541,484.59)
Capital grants	0.00	938,697.40	938,697.40
Proceeds from sale of capital assets	0.00	0.00	0.00
Interest paid on bonds	0.00	(109,382.00)	(109,382.00)
Principal payments on bonds	0.00	(72,000.00)	(72,000.00)
Change in restricted cash requirements	0.00	(12,426.23)	(12,426.23)
Change in net pension liability	(3,266.00)	(9,798.00)	(13,064.00)
Net cash provided (used) by capital and related financing activities	(3,266.00)	193,606.58	(735,292.82)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	0.00	1,891.00	1,891.00
Net increase (decrease) in cash	249.55	210,153.81	(715,230.04)
Cash beginning of year	30,798.27	(177,228.32)	(146,430.05)
Cash end of year	\$ 31,047.82	\$ 32,925.49	\$ (861,660.09)
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	\$ (20,853.43)	(354,459.75)	\$ (375,313.18)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	30,824.00	104,661.00	135,485.00
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,421.46)	(114,845.78)	(119,267.24)
(Increase) decrease in deferred outflows	2,554.00	7,664.00	10,218.00
Increase (decrease) in accounts payable	(536.87)	159,138.03	158,601.16
Increase (decrease) in accrued expenses	(4,050.69)	(10,138.24)	(14,188.93)
	24,368.98	146,479.01	170,847.99
Net Cash Provided (Used) in Operating Activities	\$ 3,515.55	\$ (207,980.74)	\$ (204,465.19)

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

STATEMENT OF NET POSITION
 FIDUCIARY FUND
June 30, 2018

	TAX COLLECTION AGENCY FUND	CITY RESTITUTION AND FORFEITURE FUND
<u>ASSETS</u>		
Cash in bank	\$ <u>13,644.22</u>	\$ <u>3,445.00</u>
<u>LIABILITIES</u>		
Due to Downtown Development Authority	\$ 0.00	\$ 0.00
Due to General Fund	13,644.22	0.00
Due to Others	<u>0.00</u>	<u>3,445.00</u>
Total Liabilities	\$ <u>13,644.22</u>	\$ <u>3,445.00</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT
STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
June 30, 2018

ASSETS:

Current Assets:		
Cash	\$	136,604.11
Due from other funds		0.00
Other receivables		0.00
Total Current Assets		<u>136,604.11</u>
Noncurrent Assets:		
Land		5,000.00
Construction in progress		0.00
Equipment		3,100.00
Buildings and improvements		140,015.91
Accumulated depreciation		<u>(63,974.74)</u>
Total Noncurrent Assets		<u>84,141.17</u>
Total Assets		220,745.28

LIABILITIES:

Current Liabilities:		
Accounts payable		11,241.27
Due to Capital Projects Fund		0.00
Building authority bond		0.00
Total Current Liabilities		<u>11,241.27</u>
Noncurrent Liabilities:		
Building authority bond		<u>0.00</u>
Total Noncurrent Liabilities		<u>0.00</u>
Total Liabilities		11,241.27

NET POSITION:

Invested in capital assets net of related debt		84,141.17
Unrestricted		<u>125,362.84</u>
Total Net Position	\$	<u><u>209,504.01</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
 Bay County, Michigan

COMPONENT UNIT - DDA
 STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants/Contributions</u>	<u>Capital Grants/Contributions</u>	<u>Downtown Development Authority</u>
DOWNTOWN DEVELOPMENT AUTHORITY					
Economic development	\$ 58,272.79	\$ 0.00	\$ 19,320.00	\$ 0.00	\$ (38,952.79)
Interest on long-term debt	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Governmental Activities	<u>58,272.79</u>	<u>0.00</u>	<u>19,320.00</u>	<u>0.00</u>	(38,952.79)
GENERAL REVENUES:					
Property taxes					45,304.96
Transfer from General Fund					0.00
Net Loss on sale of assets					0.00
Unrestricted investment earnings					<u>189.62</u>
Total General Purpose Revenues and Transfers					<u>45,494.58</u>
Change in Net Position					6,541.79
Net Position - Beginning of Year					<u>202,962.22</u>
Net Position - End of Year					\$ <u>209,504.01</u>

The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF REPORTING ENTITY:

The City of Pinconning is located in Bay County and operates under an elected Board of Council Members (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pinconning has one component unit, the Downtown Development Authority. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, and promote growth within the district. The Authority's governing body, which consists of nine (9) individuals, is appointed by the Mayor and approved by the City Council.

Joint Fire Authority -

The City of Pinconning, Pinconning Township and the Township of Fraser participate jointly in the operation of the Pinconning Fraser Fire Department Authority. The funding formula requires that each municipality share the operational costs of the department. All the financial operations of the fire department are recorded in the Pinconning Fraser Fire Department Authority and separate financial information is available from the Authority. The City's portion contributed for the fiscal year was \$ 34,739 for operating purposes and \$ 0.00 for capital expenditures.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. BASIS OF PRESENTATION:

The Government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the activities of City. The effect of the interfund activity, within the Governmental and Business-type Activities columns, has been removed from these statements. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-type Activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

D. FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental and Proprietary Activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of Governmental Funds is on the sources, uses and balance of current financial resources. The City has presented the following Major Governmental Funds:

Major Government Funds

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

expenditures of those funds related to the maintenance and construction of major roads within the City.

Local Street Fund -

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of local roads within the City.

Proprietary Funds

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses for the Proprietary Funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following Major Proprietary Funds:

Water Fund -

Water Fund is used to account for the provision of water to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Sewer Fund

Sewer Fund is used to account for sewage disposal for the residents of the City. Activities of the fund include administration, operation and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Fiduciary Funds

Tax Collection Fund and City Restitution and Forfeiture Fund-

The Tax Collections Agency Fund accounts for assets held by the City in a trustee capacity. Tax Collections are custodial in nature and do not involve the measurement of results of operations. The City Restitution and Forfeiture Fund accounts for assets held by the City in a trustee capacity, which are custodial in nature and do not involve measurement of operating results.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. MEASUREMENT FOCUS/BASIS OF ACCOUNTING:

Measurement focus refers to what is being measured. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide Statements and Fund Financial Statements for Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

F. FIXED ASSETS/DEPRECIATION:

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	40 – 50 years
Land improvements	15 – 20 years
Vehicles	5 – 10 years
Furniture and other equipment	3 – 10 years
Water and sewer transmission lines	40 years

G. FUND EQUITY:

In the Fund Financial Statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H. PROPERTY TAXES:

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 15 with a final collection date of February 29 before they are added to the county tax rolls.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The 2017 taxable valuation of City properties totaled \$ 26,413,050: The taxes levied and the resulting revenue by fund and component unit was as follows:

	Millage Rate	Gross Levy/ Revenue	DDA Capture	Net Taxes
Operating millage – net of portion captured by Downtown Development Authority	14.6736	\$ 371,943	\$ 25,637	\$ 346,306
Special Assessment-Refuse collection	N/A	87,210	N/A	76,194
Special Assessment-Ambulance	N/A	14,109	N/A	14,065
 Total Governmental Funds		\$ 473,262	\$ 25,637	\$ 436,565
 Capture from other units			19,668	
 Component Unit				
Downtown Development Authority	N/A		\$ 45,305	

I. RESTRICTED CASH:

The City's 1996 series A & B and 2002 series water and sewer bonds require that the City maintain a bond reserve account. The 1996 series A & B bond reserve account is designated for bond principal and interest payments requires \$3,625.00 deposited into the account each quarter until there is accumulated a sum of \$145,000.00. The 2002 series bond reserve account is designated for bond principal and interest payments requires \$900.00 deposited into the account each quarter until there is accumulated a sum of \$36,000.00. Total funds in the 1996 series A & B and 2002 bond reserve accounts at June 30, 2018 and 2017 are \$ 206,823.09 and \$ 181,000 respectively. These funds are restricted to be used for future debt payments.

J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

K: PENSIONS:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the City to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City incurred expenditures in excess of budgeted amounts in the General Fund as follows:

Elections	Over budget by \$ 1,465.
Treasurer	Over budget by \$ 5,777.
Clerk	Over budget by \$ 3,586.
City Hall	Over budget by \$ 35,363.
Fire	Over budget by \$ 4,739.
Sanitation	Over budget by \$ 2,428.
Department of Public Works	Over budget by \$ 80,922.
Parks and Recreation	Over budget by \$ 5,553.

Failure to File F-65 Report, Annual Audit Report and ACT 51 Report Timely – The City failed to file the annual audit reports with the State (Department of Treasury). The City also failed to file the Annual Local Unit Fiscal Report (F-65) in accordance with MCL 141.425 section 5 and the ACT 51 report.

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Monthly Ranges</u>	<u>Beginning Balances</u>	<u>Additions (Deductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>
BUSINESS – TYPE ACTIVITIES						
1996 Revenue Bond B	4.5	5,000/yr	0	(0)	0	0
1996 Revenue Bond A	4.5	5,000-155,500/yr	1,885,000	(65,000)	1,820,000	70,000
2002 Revenue Bond A	4.75	3,000-50,000/yr	486,000	(6,000)	480,000	6,000
2002 Revenue Bond B	4.75	1,000-3,000/yr	<u>31,000</u>	<u>(1,000)</u>	<u>30,000</u>	<u>1,000</u>
Total Business-type Activity			<u>\$ 2,469,000</u>	<u>\$ (72,000)</u>	<u>\$ 2,330,000</u>	<u>\$ 77,000</u>

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3. LONG-TERM DEBT (continued):

Annual debt service principal and interest requirements are summarized as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 77,000	106,412
2020	84,000	102,953
2021	89,000	99,173
2022	91,000	92,749
2023	96,000	88,516
2024-2028	575,000	369,283
2029-2033	733,000	220,965
2034-2038	480,000	63,841
2039-2041	105,000	5,012
Total	2,330,000	1,148,904

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance June 30, 2017</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2018</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Capital assets being depreciated				
Buildings and improvements	955,204	0	0	955,204
Furniture & equipment	667,460	77,893	0	745,353
Infrastructure	637,853	0	0	637,853
Subtotal	2,260,517	77,893	0	2,338,410
Less accumulated depreciation	1,642,401	53,842	0	1,696,242
Net capital assets	\$ 643,117	\$ 24,051	\$ 0	\$ 667,167
Business – type activities:				
Capital assets not being depreciated				
Land	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Construction in progress	0	662,065	0	662,065
Capital assets being depreciated				
Buildings and improvements	3,452,334	0	0	3,452,334
Water and sewer distribution systems	2,897,948	0	0	2,897,948
Furniture and equipment	213,779	0	0	213,779
Subtotal	6,564,061	0	0	6,564,061
Less accumulated depreciation	3,190,319	135,485	0	3,325,804
Net capital assets	\$ 3,423,742	\$ (135,485)	\$ 0	\$ 3,288,257

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4. CAPITAL ASSETS (continued):

Capital assets activity for the City's component unit for the year was as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Component Unit				
Capital assets not being depreciated				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Capital assets being depreciated				
Buildings and improvements	143,116	0	0	143,116
Less accumulated depreciation	<u>54,141</u>	<u>9,834</u>	<u>0</u>	<u>63,975</u>
Net capital assets being depreciated	<u>0</u>	<u>9,834</u>	<u>0</u>	<u>0</u>
Total Net Capital Assets	<u>\$ 93,975</u>	<u>\$ (9,834)</u>	<u>\$ 0</u>	<u>\$ 84,141</u>

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental Activities:		
Legislative		\$ 0
General government		21,412
Public safety		9,731
Streets		20,272
Public works		0
Recreation and culture		2,427
Total Depreciation Expense		<u>\$ 53,842</u>
Business-type Activities:		
Water		30,824
Sewer		104,661
Total Water and Sewer		<u>\$ 138,109</u>
Component Unit:		
DDA		<u>\$ 9,834</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The City had no interfund receivables or payables. Transfers are detailed below:

	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>	<u>Purpose</u>
Sewer Fund	<u>\$ 222,637</u>	General Fund	<u>\$ 222,637</u>	To cover sewer fund expenditures paid with general fund monies that were never transferred
Total	<u>\$ 222,637</u>		<u>\$ 222,637</u>	

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6. CUSTODIAL CREDIT RISK:

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority. The following is total cash:

Governmental Activities	Business Type	Total Primary Government	Component Unit
\$ 929,456	\$ 257,400	\$ 1,186,855	\$ 136,604

The breakdown between deposits and investments for the City is as follows:

Deposits	\$ 1,323,259
Investments	-
Petty Cash	200
Total	\$ 1,323,459

Risk categories are classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
- (3) Uncollateralized - This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.
Bank deposits including certificates of deposit:

Category 1	1,323,459
Category 2	-
Category 3	-
Total	1,323,459

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member retirement board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.00% to 2.25%. Vesting period is 10 years. Normal retirement age is 60 with early retirement at 55 with 15 years of service for unreduced benefits and early retirement at 50 with 25 years of service for reduced benefits. Final average compensation is calculated based on 5 years. Member contributions range from 5% to 7.50%.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	1
Active Employees	<u>5</u>
Total	<u>22</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 1.43% to 34.87% based on annual payroll for open divisions.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement include: 1) Inflation 2.5%; 2) Salaries increases 3.75% in the long-term, 3) Investment rate of return 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of 50% male and 50% female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):

Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2016. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employees. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension liability during the measurement year were as follows:

		2018
Total Pension Liability		
Service cost	\$	16,734
Interest on the total pension liability		178,759
Difference between expected and actual experience		(104,887)
Other changes		(1)
Benefit payments and refunds		(187,290)
Net change in total pension liability		(96,685)
Total pension liability - beginning		2,319,768
Total pension liability - ending (a)	\$	2,223,083
 Plan Fiduciary Net Position		
Employer contributions	\$	51,543
Employee contributions		10,599
Pension plan net investment income		161,671
Benefit payments and refunds		(187,290)
Pension plan administrative expense		(2,574)
Net change in plan fiduciary net position		33,949
Plan fiduciary net position - beginning		1,284,294
Plan fiduciary net position - ending (b)		1,318,243
Net pension liability (a-b)	\$	904,840

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. DEFINED BENEFIT PENSION PLAN (continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate.

	1% Decrease <u>7.00%</u>	Current Discount Rate <u>8.00%</u>	1% Increase <u>9.00%</u>
Change in Net Pension Liability	\$ 200,093	\$ 0	\$ (173,192)
Calculated Net Pension Liability	\$ 1,105,933	\$ 904,840	\$ 731,648

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the employer recognized pension expense of \$ (28,459). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows Of Resources</u>
Differences in Experience	\$ 0	\$ 0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	<u>0</u>	<u>15,016</u>
Total to be smoothed over 5 years	0	15,016
Contributions Subsequent to the Measurement Date*	<u>33,369</u>	<u>0</u>
Total	<u>\$ 33,369</u>	<u>\$ 15,016</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2018.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7. DEFINED BENEFIT PENSION PLAN (continued):

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	
2018	12,879
2019	4,350
2020	(21,104)
2021	(12,809)
2022	<u>(0)</u>
Total	16,684

NOTE 8. RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in Michigan Township Participant Plan, a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage.

NOTE 9. MANAGEMENT REVIEW:

Management has evaluated subsequent events and transactions for potential recognition and disclosure through December 31, 2018, the date the financial statement were available to be issued. No such significant events or transactions were identified.

NOTE 10. FUND BALANCE CLASSIFICATIONS:

Beginning with the year ended June 30, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources for which the resources can be used:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, or laws or regulations of other governments or is imposed through constitutional provisions or enabling legislation.

CITY OF PINCONNING
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10. FUND BALANCE CLASSIFICATIONS (continued):

Committed – The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by formal City Council resolutions.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts have been restricted, committed or assigned.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption - Sometime a government will fund outlays for a particular purpose from both restricted and unrestricted resources (including committed and assigned). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTE 11. TAX ABATEMENTS

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50% of the property tax bill for the new property (or it can freeze taxable values of the year previous to the rehabilitation for rehabilitation properties) for up to 12 years.

As of June 30, 2018, the City's property tax revenue was reduced by \$ 5,254.39 under these programs.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 280,000.00	\$ 280,000.00	\$ 371,942.66	\$ 91,942.66
Special assessment solid waste	76,000.00	76,000.00	87,210.00	11,210.00
Special assessment ambulance	14,000.00	14,000.00	14,109.12	109.12
State revenue sharing	130,000.00	130,000.00	137,218.00	7,218.00
Intergovernmental other	0.00	0.00	180,055.65	180,055.65
Charges for services	67,200.00	67,200.00	20,293.01	(46,906.99)
License and permits	0.00	0.00	621.50	621.50
Interest and rental	1,500.00	1,500.00	1,873.20	373.20
Other revenue	16,000.00	16,000.00	0.00	(16,000.00)
Total Revenues	584,700.00	584,700.00	813,323.14	228,623.14
EXPENDITURES:				
Legislative	12,668.00	12,668.00	12,328.32	339.68
General Government -				
City Manager	46,560.00	46,560.00	35,173.91	11,386.09
Elections	100.00	100.00	1,564.51	(1,464.51)
Assessor	17,600.00	17,600.00	16,162.96	1,437.04
Accounting	0.00	0.00	0.00	0.00
Board of Review	1,700.00	1,700.00	1,407.88	292.12
Treasurer	18,047.00	18,047.00	23,824.21	(5,777.21)
Clerk	35,790.00	35,790.00	39,375.86	(3,585.86)
City Hall	47,500.00	47,500.00	82,863.14	(35,363.14)
Public Safety -				
Fire	30,000.00	30,000.00	34,739.00	(4,739.00)
Police	121,460.00	121,460.00	93,891.73	27,568.27
Health and Welfare-				
Ambulance	14,000.00	14,000.00	0.00	14,000.00
Public Works -				
Sanitation	76,000.00	76,000.00	78,428.04	(2,428.04)
Street lighting	0.00	0.00	19,375.75	(19,375.75)
Planning	0.00	0.00	0.00	0.00
Department of public works	112,814.00	112,814.00	174,360.71	(61,546.71)
Cultural and Recreation -				
Parks	10,200.00	10,200.00	15,752.76	(5,552.76)
Unallocated	118,972.01	118,972.01	98,603.71	20,368.30
Total Expenditures	663,411.01	663,411.01	727,852.49	(64,441.48)
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	31,042.41	31,042.41	(222,636.97)	(253,679.38)
Net Other Financing Sources (Uses)	31,042.41	31,042.41	(222,636.97)	0.00
NET CHANGE IN FUND BALANCE	(47,668.60)	(47,668.60)	(137,166.32)	(89,497.72)
FUND BALANCE - Beginning of Year	777,566.78	777,566.78	777,566.78	0.00
FUND BALANCE - End of Year	\$ 729,898.18	\$ 729,898.18	\$ 640,400.46	(89,497.72)

CITY OF PINCONNING
Bay County, Michigan

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	80,000.00	80,000.00	112,903.75	32,903.75
Local contribution	0.00	0.00	0.00	0.00
Interest and rentals	0.00	0.00	0.00	0.00
Total Revenues	80,000.00	80,000.00	112,903.75	32,903.75
EXPENDITURES:				
Public Works-				
Routine maintenance	45,200.00	45,200.00	161,215.80	(116,015.80)
Signals and signs	1,000.00	1,000.00	1,956.64	(956.64)
Equipment rental	25,000.00	25,000.00	0.00	25,000.00
Snow removal	2,500.00	2,500.00	2,442.34	57.66
Non-Motorized	3,000.00	3,000.00	0.00	3,000.00
Administration	3,300.00	3,300.00	862.00	2,438.00
Total Expenditures	80,000.00	80,000.00	166,476.78	(86,476.78)
EXCESS REVENUES OVER EXPENDITURE	0.00	0.00	(53,573.03)	(53,573.03)
OTHER FINANCING SOURCES (USES):				
Transfer in Local Street Fund	0.00	0.00	0.00	0.00
Transfer out Local Street Fund	0.00	0.00	0.00	0.00
Total Other Sources (Uses)	0.00	0.00	0.00	0.00
Excess (deficiency) of revenues over expenditures and other uses	0.00	0.00	(53,573.03)	(53,573.03)
FUND BALANCE - Beginning of Year	309,729.00	309,729.00	309,729.00	0.00
FUND BALANCE - End of Year	\$ <u>309,729.00</u>	\$ <u>309,729.00</u>	\$ <u>256,155.97</u>	<u>(53,573.03)</u>

CITY OF PINCONNING
Bay County, Michigan

LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	30,000.00	30,000.00	38,265.50	8,265.50
Interest and rentals	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Revenues	30,000.00	30,000.00	38,265.50	8,265.50
EXPENDITURES:				
Public Works-				
Routine maintenance	15,000.00	15,000.00	6,639.68	8,360.32
Signals and signs	0.00	0.00	215.27	(215.27)
Snow removal	3,000.00	3,000.00	2,621.77	378.23
Administration	3,000.00	3,000.00	742.00	2,258.00
Equipment rental	9,000.00	9,000.00	200.00	8,800.00
Nonmotorized	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Expenditures	<u>30,000.00</u>	<u>30,000.00</u>	<u>10,418.72</u>	<u>19,581.28</u>
EXCESS REVENUES OVER EXPENDITURE	0.00	0.00	27,846.78	27,846.78
OTHER FINANCING SOURCES (USES):				
Transfer to Major Street	0.00	0.00	0.00	0.00
Transfer from General	0.00	0.00	0.00	0.00
Transfer from Major Street	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Other Sources (Uses)	0.00	0.00	0.00	0.00
Excess (deficiency) of revenues over expenditures and other uses	0.00	0.00	27,846.78	27,846.78
FUND BALANCE - Beginning of Year	<u>41,072.39</u>	<u>41,072.39</u>	<u>41,072.39</u>	<u>0.00</u>
FUND BALANCE - End of Year	<u>\$ 41,072.39</u>	<u>\$ 41,072.39</u>	<u>\$ 68,919.17</u>	<u>27,846.78</u>

CITY OF PINCONNING
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS
June 30, 2018

	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 16,734	\$ 20,955	\$ 31,092	\$ 28,324
Interest on the total pension liability	178,759	172,687	167,686	165,520
Difference between expected and actual experience	(104,887)	64,516	13,798	-
Changes in assumptions	0	0	95,300	-
Other changes	(1)	0	(230)	(1)
Benefits payments and refunds	(187,290)	(172,994)	(180,111)	(157,826)
Net change in total pension liability	(96,685)	85,164	127,535	36,017
Total pension liability - beginning	2,319,768	2,234,604	2,107,069	2,071,052
Total pension liability - ending (a)	\$ 2,223,083	\$ 2,319,768	\$ 2,234,604	\$ 2,107,069
 Plan Fiduciary Net Position				
Employer contributions	\$ 51,543	\$ 68,101	\$ 52,445	\$ 39,475
Employee contributions	10,599	18,539	16,444	15,121
Pension plan net investment income	161,671	136,855	(18,997)	85,917
Benefit payment and refunds	(187,290)	(172,994)	(180,111)	(157,826)
Pension plan administrative expense	(2,574)	(2,707)	(2,897)	(3,133)
Net change in plan fiduciary net position	33,949	47,794	(133,116)	(20,446)
Plan fiduciary net position - beginning	1,284,294	1,236,500	1,369,616	1,390,062
Plan fiduciary net position - ending (b)	1,318,243	1,284,294	1,236,500	1,369,616
Net pension liability (a-b)	\$ 904,840	\$ 1,035,474	\$ 998,104	\$ 737,453
 Plan fiduciary net position as a percentage of total pension liability	59.30%	55.36%	55.33%	65.00%
Covered employee payroll	\$ 218,444	\$ 231,284	\$ 273,808	\$ 260,761
Net pension liability as a percentage of covered employee payroll	414.22%	447.71%	364.53%	282.81%

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF PINCONNING
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
June 30, 2018

MERS Plan Year End December 31	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarial Determined Contributions	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,543	\$ 68,101	\$ 52,445	\$ 39,476
Determined contribution		0	0	0	0	0	51,543	68,101	52,445	39,476
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Employee Payroll	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 218,444	\$ 231,284	\$ 273,808	\$ 260,761
Contributions as a percentage of covered employee payroll							24%	29%	19%	15%

Notes to Schedule

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Actuarially determined contribution rates are calculated as of December 31, each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	24 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	60
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

OTHER SUPPORTING INFORMATION

CITY OF PINCONNING
Bay County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 53,000.00	\$ 53,000.00	\$ 45,304.96	\$ (7,695.04)
Sale of assets	0.00	0.00	0.00	0.00
Other income	0.00	0.00	19,320.00	19,320.00
Interest	<u>25.00</u>	<u>25.00</u>	<u>189.62</u>	<u>164.62</u>
Total Revenues	53,025.00	53,025.00	64,814.58	11,789.58
EXPENDITURES:				
Economic Development:				
Building maintenance	6,025.00	6,025.00	410.00	5,615.00
Administrative fees	1,500.00	1,500.00	5,700.00	(4,200.00)
Project activities	169,100.00	169,100.00	35,236.17	133,863.83
Debt - principal	0.00	0.00	0.00	0.00
Debt- interest	0.00	0.00	0.00	0.00
Capital outlay	0.00	0.00	0.00	0.00
Other	<u>7,400.00</u>	<u>7,400.00</u>	<u>7,092.77</u>	<u>307.23</u>
Total Expenditures	184,025.00	184,025.00	48,438.94	134,171.06
EXCESS REVENUES OVER EXPENDITURE	(131,000.00)	(131,000.00)	16,375.64	147,375.64
OTHER FINANCING SOURCES (USES):				
Transfer in	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Excess (deficiency) of revenues over expenditures and other uses	(131,000.00)	(131,000.00)	16,375.64	<u>147,375.64</u>
FUND BALANCE - Beginning of Year	<u>108,987.20</u>	<u>108,987.20</u>	<u>108,987.20</u>	
FUND BALANCE - End of Year	\$ <u><u>(22,012.80)</u></u>	\$ <u><u>(22,012.80)</u></u>	\$ <u><u>125,362.84</u></u>	

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT - DDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

NET CHANGE IN FUND BALANCE	\$	16,375.64
Amounts reported for Governmental Activities in the Statement of Activities are different because -		
Governmental Funds report capital outlays as expenditures while in the Statement of Activities, these costs are allocated over their estimated lives as depreciation expense.		
Depreciation expense		(9,833.85)
Capital asset purchases capitalized		0.00
Repayment of debt principal is an expenditure in the Governmental Funds, the repayment does not have an effect in the Statement of Activities but does reduce the debt balance in the Statement of Net Position.		
Principal payments on long-term debt		0.00
CHANGE IN NET POSITION - COMPONENT UNIT ACTIVITIES	\$	<u>6,541.79</u>

CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
June 30, 2018

ASSETS:

Current Assets:

Cash	\$	136,604.11
Due from other funds		0.00
Taxes receivable		<u>0.00</u>

Total Current Assets	\$	<u><u>136,604.11</u></u>
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LIABILITIES:

Current Liabilities:

Accounts payable	\$	11,241.27
Due to Capital Projects Fund		<u>0.00</u>

Total Current Liabilities		11,241.27
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Fund Balance

Unrestricted		<u>125,362.84</u>
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Total Liabilities and Fund Balance	\$	<u><u>136,604.11</u></u>
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CITY OF PINCONNING
Bay County, Michigan

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET POSITION
June 30, 2018

FUND BALANCES ON BALANCE SHEET	\$ 125,362.84
Amounts reported for Governmental Activities in the Statement of Net Position are different because -	
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:	
Capital assets at cost	148,115.91
Accumulated depreciation	(63,974.74)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds	0.00
TOTAL NET POSITION - COMPONENT UNIT	\$ <u>209,504.01</u>

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2018

REVENUES:

Taxes -	
Current tax levy	\$ 361,811.37
Special assessment solid waste	87,210.00
Ambulance	14,109.12
Penalties and interest	4,631.29
Collection fee	<u>5,500.00</u>
Total taxes	473,261.78
State and Local Grants -	
State revenue sharing	137,218.00
Local grant	<u>180,055.65</u>
	317,273.65
Licenses and permits -	
Mobile home park	<u>621.50</u>
Total licenses and permits	621.50
Charges for Services -	
Police services	<u>20,293.01</u>
Total charges for services	20,293.01
Interest and Rentals -	
Interest	<u>1,873.20</u>
Total interest and rentals	<u>1,873.20</u>
Total Revenues	813,323.14
EXPENDITURES	727,852.49
OTHER FINANCING SOURCES (USES)	
Transfer to Sewer	(222,636.97)
Total other uses	<u>(222,636.97)</u>
NET CHANGE IN FUND BALANCE	(137,166.32)
FUND BALANCE - July 1, 2017	<u>777,566.78</u>
FUND BALANCE - June 30, 2018	\$ <u><u>640,400.46</u></u>

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Year Ended June 30, 2018

EXPENDITURES:

LEGISLATIVE:

Mayor and City Council -

Salaries	\$ 9,400.00
Fringes and taxes	594.13
Membership dues	1,209.00
Audit	0.00
Supplies and other	<u>1,125.19</u>

Total Legislative 12,328.32

GENERAL GOVERNMENT:

City Manager -

Wages	32,546.43
Fringes and taxes	2,052.48
Telephone	0.00
Mileage and other	<u>575.00</u>

Total Manager 35,173.91

Elections -

Wages	660.00
Supplies	874.51
Printing and publication	<u>30.00</u>

Total Elections 1,564.51

Assessor -

Contracted service	12,480.00
County tax roll service	2,770.31
Supplies and other costs	<u>912.65</u>

Total Assessor 16,162.96

Board of Review -

Fees	632.50
Other costs	<u>775.38</u>

Total Board of Review 1,407.88

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2018

EXPENDITURES (CONT.):
GENERAL GOVERNMENT (CONT.):

Treasurer -	
Salaries	\$ 22,370.36
Fringes and taxes	1,398.85
Mileage	0.00
Meetings	55.00
Supplies and other	<u>0.00</u>
Total Treasurer	23,824.21
Clerk -	
Salaries	36,612.40
Fringes and taxes	2,313.85
Mileage	329.61
Meetings	120.00
Supplies and other	<u>0.00</u>
Total Clerk	39,375.86
City Hall and Grounds -	
Advertising	1,906.30
Custodial	2,400.00
Supplies	2,476.85
Office	16,383.69
Legal	3,299.00
Insurance	39,082.53
Utilities	7,512.00
Repairs and maintenance	7,076.48
Telephone	2,726.29
Capital outlay	<u>0.00</u>
Total City Hall	<u>82,863.14</u>
Total General Government	200,372.47
PUBLIC SAFETY:	
Fire Department -	
Contracted fire protection	34,739.00
Hydrant rental	0.00
Capital outlay	<u>0.00</u>
Total Fire Department	34,739.00

CITY OF PINCONNING
Bay County, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2018

EXPENDITURES (CONT.):	
PUBLIC SAFETY (CONT.)	
Police -	
Salaries	\$ 70,664.89
Fringes and taxes	4,480.87
Office	308.53
Gas and oil	2,717.87
Legal	67.50
Supplies	0.00
Uniforms	1,866.55
Contracted services	710.00
Telephone	1,361.13
Training	828.97
Insurance	8,178.11
Capital outlay	0.00
Vehicle maintenance	2,434.51
Other costs	<u>272.80</u>
Total Police	<u>93,891.73</u>
Total Public Safety	128,630.73
HEALTH AND WELFARE	
Ambulance -	
Contracted service	0.00
PUBLIC WORKS:	
Sanitation -	
Refuse contract	78,428.04
Street Lighting	19,375.75
Department of Public Works -	
Salaries	59,544.40
Fringes and taxes	3,742.98
Supplies	6,135.51
Uniforms	1,178.02
Gas and oil	7,857.91
Telephone	742.98
Insurance	0.00
Utilities	6,344.51
Maintenance and repairs	10,921.57
Capital outlay	<u>77,892.83</u>
Total DPW	174,360.71
Planning and Zoning -	<u>0.00</u>
Total Public Works	272,164.50
RECREATION AND CULTURAL:	
Parks and Recreation -	
Utilities	2,900.92
Repairs and maintenance	3,622.13
Insurance	6,290.36
Supplies and other	2,939.35
Capital outlay	<u>0.00</u>
Total Recreation and Cultural	15,752.76
UNALLOCATED	
Health insurance and other fringes	42,617.97
Retirement	<u>55,985.74</u>
Total Unallocated	<u>98,603.71</u>
Total Expenditures	\$ <u><u>727,852.49</u></u>

CITY OF PINCONNING
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES A
 SCHEDULE OF INDEBTEDNESS
June 30, 2018

TYPE OF ISSUE: Revenue Bond
 PURPOSE OF ISSUE: Water and Sewage System Improvements
 INTEREST RATE: 4.75%
 TOTAL AUTHORIZED ISSUE: 544,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>	<u>Total</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest Only</u>	
2018	-	-	11,400	11,400
2019	11,400	6,000	11,257	28,657
2020	11,257	8,000	11,067	30,324
2021	11,067	8,000	10,877	29,944
2022	10,877	10,000	10,640	31,517
2023	10,640	10,000	10,402	31,042
2024	10,402	10,000	10,165	30,567
2025	10,165	15,000	9,809	34,974
2026	9,809	15,000	9,453	34,262
2027	9,453	15,000	9,096	33,549
2028	9,096	15,000	8,740	32,836
2029	8,740	18,000	8,313	35,053
2030	8,313	20,000	7,838	36,151
2031	7,838	20,000	7,363	35,201
2032	7,363	20,000	6,888	34,251
2033	6,888	20,000	6,413	33,301
2034	6,413	20,000	5,938	32,351
2035	5,938	20,000	5,463	31,401
2036	5,463	40,000	4,513	49,976
2037	4,513	40,000	3,563	48,076
2038	3,563	50,000	2,375	55,938
2039	2,375	50,000	1,188	53,563
2040	1,188	50,000	0	51,188
	\$ <u>172,761</u>	\$ <u>480,000</u>	\$ <u>172,761</u>	\$ <u>825,522</u>

CITY OF PINCONNING
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES B
 SCHEDULE OF INDEBTEDNESS
June 30, 2018

TYPE OF ISSUE: REVENUE BOND
 PURPOSE OF ISSUE: WATER AND SEWAGE SYSTEM IMPROVEMENTS
 INTEREST RATE: 4.75%
 ORIGINAL ISSUE: 47,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest Only</u>	
2018	-	-	712	712
2019	1,000	712	689	2,401
2020	1,000	689	665	2,354
2021	1,000	665	641	2,306
2022	1,000	641	617	2,258
2023	1,000	617	594	2,211
2024	1,000	594	570	2,164
2025	1,000	570	546	2,116
2026	1,000	546	523	2,069
2027	1,000	523	499	2,022
2028	1,000	499	475	1,974
2029	1,000	475	451	1,926
2030	1,000	451	428	1,879
2031	1,000	428	404	1,832
2032	1,000	404	380	1,784
2033	1,000	380	356	1,736
2034	2,000	356	309	2,665
2035	2,000	309	261	2,570
2036	2,000	261	214	2,475
2037	2,000	214	166	2,380
2038	2,000	166	119	2,285
2039	2,000	119	71	2,190
2040	3,000	71	0	3,071
	<u>\$ 30,000</u>	<u>\$ 9,690</u>	<u>\$ 9,690</u>	<u>\$ 49,380</u>

CITY OF PINCONNING
Bay County, Michigan

1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS - SERIES A
 WATER AND SEWER FUND
 SCHEDULE OF INDEBTEDNESS
June 30, 2018

TYPE OF ISSUE: Revenue Bonds
 PURPOSE OF ISSUE: Water Supply System and Sewage Disposal
 INTEREST RATE: 4.5%
 ORIGINAL ISSUE: 2,511,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>	<u>Totals</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	-	-	40,950	40,950
2019	40,950	70,000	39,375	150,325
2020	39,375	75,000	37,687	152,062
2021	37,687	80,000	35,888	153,575
2022	35,887	80,000	34,087	149,974
2023	34,088	85,000	32,175	151,263
2024	32,175	90,000	30,150	152,325
2025	30,150	95,000	28,013	153,163
2026	28,013	100,000	25,762	153,775
2027	25,762	105,000	23,400	154,162
2028	23,400	110,000	20,925	154,325
2029	20,925	115,000	18,338	154,263
2030	18,338	120,000	15,637	153,975
2031	15,637	125,000	12,825	153,462
2032	12,825	135,000	9,788	157,613
2033	9,788	135,000	6,750	151,538
2034	6,750	145,000	3,487	155,237
2035	3,487	155,000	0	158,487
	\$ <u>415,237</u>	\$ <u>1,820,000</u>	\$ <u>415,237</u>	\$ <u>2,650,474</u>

CITY OF PINCONNING
Bay County, Michigan

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

Material Weaknesses

2018-001- Material Audit Adjustments (repeat)

Condition – Material audit adjustments were necessary to adjust cash, accounts receivable, capital assets, accounts payable, current and long-term debt, tax revenues, local contributions and transfers in and out to appropriate balances at year end.

Criteria – Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Potential Effect – Without identification by independent, external auditors, and subsequent adjustment, the financial statements of the City would be materially misstated.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Corrections to various accounts were not completed until after year end and upon auditor discovery.

Recommendation – We recommend that management record all accounting transactions as they occur for completeness and evaluate all accounting entries to be made into the general ledger for appropriateness as well as accuracy. Reconciling bank statements and posting all transactions accurately, as well as analyzing each journal entry, specifically, for compliance with GAAP and for recording accuracy, would help to alleviate these issues.

2018-002- Bank Reconciliations (repeat)

Condition – Bank reconciliations were not performed timely and balances did not accurately reflect the balance noted in the general ledger. As a result, a significant amount of transactions related to ACH receipts and payments, as well as grant monies were unrecorded.

Criteria – Management is responsible for maintaining accountings records and appropriate support, such as bank reconciliations. Each reconciliation should be performed, timely (within six weeks of month end) and the balance should be reconciled to the general ledger.

Potential Effect – The City could be misstating its cash balance or have misappropriated cash that is not discovered through traditional risk prevention techniques such as bank reconciliations. Without auditor identification, the financial statements would have been materially misstated.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Reconciliations were not done timely and, in some cases, no reconciliations were done, further, resulting balances were not being compared to the general ledger for accuracy and bank statements were not regularly reviewed for completeness in recording

Recommendation – All bank accounts should be reconciled monthly, without exception. We recommend that management strengthen internal controls by directly supervising the bank reconciliation process and checking for details and accuracy in the reconciliation. Further, the reconciled balances should be checked back to the general ledger to ensure balancing accuracy.

2018-003- Financial Statement Preparation (repeat)

Condition - As in the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Criteria – All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Potential Effect – As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, instead relying in part, on external auditors for assistance with this task.

Cause – This condition was caused by the City's decision that it is a more cost effective to outsource the preparation of its annual financial statements and identification of certain year-end adjustments to its independent auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Recommendation – The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the City accepts responsibility for the financial statements and that it is disclosed as part of the report. Therefore, no specific corrective action is required at this time.

2018-004- Segregation of Duties (repeat)

Condition – During the course of our audit, we noted several instances where multiple key financial duties were being performed by the same individual and the mitigating controls in place were not sufficient to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:

1. The individual who prepares the bank reconciliations also handles cash receipts and disbursements.
2. The individual who initiates transfers between bank accounts also prepares the bank reconciliations.
3. The individual who has access to the unused check stock also has access to the general ledger.

Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Potential Effect – As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Cause – The condition is a result of the City’s limited financial resources, the turnover and the small size of its accounting staff.

Recommendation – While there are no easy solutions to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management or the Council as possible.

2018-005 – Line Item Budget Deficits (repeat)

Condition – The City had expenditures, by function, that exceeded budgeted amounts. Deviation from the budget is not allowed under the Uniform Budgeting Act and additional amendments should have been made to accurately appropriate City funds.

Criteria – 1968 PA 2, the Uniform Budgeting and Accounting Act, requires that a deviation from the original general appropriations act shall not be made without amending the budget. The amendment must be approved by the legislative body prior to the expenditure being made. There is no authority to amend the budget after year end.

Potential Effect – The City’s operations could be negatively impacted as a result of cash management and expenditure control.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Budget amendments would typically be brought to the Council when the City management reasonably expected to exceed the original budget appropriations.

Recommendation – We recommend that the City regularly review financial results and compare those results to the budget, both the original and amended. Further, we recommend that management proactively review revenues and expenditures by function and ensure all budget amendments are made before year end.

2018-006- Tax Revenues Disbursed (repeat)

Condition – The City collected tax revenues for a number of taxing entities, however, payment of the revenues collected were not made in accordance with MCL 211.43 (section 43(3) of the General Property Tax Act (1893 PA 206 as amended).

Criteria – Management is responsible for collecting tax revenues and disbursing those revenues, timely in accordance with the published statutory disbursement dates, to the appropriate taxing entities in accordance with the General Property Tax Act.

Potential Effect – Tax revenues collected and not disbursed to others could cause undue financial hardship for the effected entities.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Payment of tax revenues collected on behalf of other entities was not made timely, during the fiscal year.

Recommendation – We recommend that management obtain and review the General Property Tax Act. Further, we recommend management review, regularly, the statutory disbursement dates and ensure that all taxes collected are accounted for, reconciled, and paid by the dates published by the State of Michigan.

Significant Deficiencies

2018-007- Failure to File F-65 Report (repeat)

Condition – The City failed to file the Annual Local Unit Fiscal Report (F-65) by its due date.

Criteria – In accordance with PA 71 of 1919, PA 2 of 1968 and PA 275 of 1980, the City must file an Annual Local Unit Fiscal Report with the State Treasurer within 6 months of the fiscal year end.

Potential Effect – Failure to timely file the Form F-65 may result in State Revenue Sharing money being withheld (MCL 141.921). Further, the City is noncompliant with State laws and regulations, which may be cause for additional corrective actions.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the Form F-65.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the Form F-65 should be submitted on a timely basis.

2018-008- Failure to File Annual Audit Report (repeat)

Condition – The City failed to file annual audit reports with the Michigan Department of Treasury by the required due date.

Criteria – In accordance MCL 141.425, local units are required to undergo a financial statement audit, which must be filed with the Department of Treasury no later than 6 months after the local unit's fiscal year end.

Potential Effect – Failure to timely file the annual audit may result in State Revenue Sharing money being withheld (MCL 141.921). Further, the City is noncompliant with State laws and regulations, which may be cause for additional corrective actions.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the annual audit reports.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the annual audit reports should be submitted on a timely basis.

2018-009- Failure to File ACT 51 Street Report (repeat)

Condition – The City failed to file annual audit reports with the Michigan Department of Transportation by the required due date

Criteria – In accordance with MCL Section 247.665(3) of PA 51 of 1951, as amended, also known as Section 15(3), each City shall file with the director of MDOT, not more than 120 days after the end of its fiscal year, on forms provided by the director, a report showing the disposition of funds appropriated, apportioned, or allocated under this act to the City, except funds appropriated under section 10b. The Street Administrator must ensure that forms are completed in conformance with the instructions and sent to MDOT by their due date

Potential Effect – Failure to timely file the ACT 51 Street Report may result in Michigan Transportation Fund payments being withheld.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the ACT 51 Street Report.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the ACT 51 Street Report should be submitted on a timely basis.

2018-010- Noncompliance with USDA Reserve Requirements

Condition – The City failed to comply with the USDA reserve and repair and replacements requirements that are a condition of the USDA bonds that the City is obligated to repay.

Criteria – In accordance with various bond documents, as issued by the USDA and as agreed to by the City of Pinconning, reserve requirements exist that are currently underfunded. The City maintains approximately \$ 206,000 of the required \$374,600 of reserve and repair requirements.

Potential Effect – Failure to maintain reserve and repair requirements as outlined in the bond documents could cause the City to undergo corrective action as set forth by the USDA.

Cause – The City did not have an updated reserve and repair replacement requirement schedule and therefore, believed themselves to be in compliance.

Recommendation – We recommend that management review the USDA reserve and replacement requirements and immediately take steps to ensure that all requirements are met and that the restricted cash balances are adequately separated from the City's operating cash.